

AUDUBON COUNTY MEMORIAL HOSPITAL

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2005 AND 2004

**AUDUBON COUNTY MEMORIAL HOSPITAL
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**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULE OF OFFICIALS
YEAR ENDED JUNE 30, 2005**

Name	Title	Term Expires
<u>Board of Trustees</u>		
Jay D. Mendenhall	Chairman	December 31, 2006
Mark Kessler	Vice Chairman	December 31, 2010
Linda Bloome	Secretary	December 31, 2006
Paul Schultz, DDS	Treasurer	December 31, 2006
Wayne Hansen	Member	December 31, 2010
Daniel Smith	Member	December 31, 2008
Connie S. Faga	Member	December 31, 2008

Hospital Officials

Tom Smith	CEO/Administrator
Joan Fancher	Assistant Administrator
Karen McGuire	Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa

We have audited the accompanying financial statements of Audubon County Memorial Hospital as of and for the years ended June 30, 2005 and 2004, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Audubon County Memorial Hospital as of June 30, 2005 and 2004, and the changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2005 on our consideration of Audubon County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 and the budgetary comparison information on page 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Audubon County Memorial Hospital's basic financial statements. The supplementary information from pages 24-32 is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical data contained in the schedule of statistics on page 33, has been summarized from the Hospital's records and was not subjected to such audit procedures. Accordingly, we express no opinion on such data.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 8, 2005

**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

This section of Audubon County Memorial Hospital's annual audited financial report represents management's discussion and analysis of the Hospital's financial performance during the fiscal year ended June 30, 2005. The analysis will focus on the Hospital's financial performance as a whole. Please read it in conjunction with the audited financial report.

Using This Annual Report

The June 30, 2005 and 2004 financial report includes the following audited financial statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements
- Required Supplementary Information
- Other Supplementary Information

FINANCIAL HIGHLIGHTS

- The Hospital's total assets increased by \$1,116,290 or 9% in 2005, \$933,650 or 8% in 2004, and \$662,024 or 6% in 2003.
- The Hospital's net assets increased in each of the last three years with a \$927,727 or 8% increase in 2005, \$777,216 or 8% increase in 2004, and a \$987,709 or 11% increase in 2003.
- The Hospital reported positive income of 892,091 in 2005, \$777,216 in 2004 and \$987,710 in 2003. This represents an increase of \$114,875 in 2005, a decrease in 2004 of \$210,494 and an increase in 2003 of \$45,080.

THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

These financial statements report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. The balance sheet is a statement of financial position. It includes all of the Hospital's assets and liabilities and provides information about the amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). Revenue and Expense are reflected for the current and previous year on the Statements of Revenues, Expenses, and Changes in Net Assets. This statement shows the results of the hospital's operations. The last financial statement is the Statement of Cash Flow. The cash flow essentially reflects the movement of money in and out of the hospital that determines the hospital's solvency. It is divided into cash flows (in or out) from operating, non-capital financing, capital and related financing, and investing activities.

Also, supporting supplementary information to the above statements is provided in:

- Schedules of Net Patient Service Revenues
- Schedules of Adjustments to Net Patient Service Revenues and Other Revenues
- Schedule of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Comparative Statistics

**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE HOSPITAL

The information from the Balance Sheets, Statements of Revenues, Expenses & Changes in Net Assets, and the Statements of Cash Flows have been summarized in the following tables. Tables 1 and 2 report on the net assets of the Hospital and the changes in them. Increases or decreases in net assets are one indicator of whether or not the hospital's financial health is improving. Other non-financial factors can also have an effect on the hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third party payers, as well as, changes in the economic environment of Audubon County and the surrounding areas.

Table 1: Assets, Liabilities, and Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current Assets	\$ 5,880,659	\$ 4,712,889	\$ 3,924,168
Assets Whose Use is Limited	2,111,087	2,557,016	2,283,686
Capital Assets, Net	5,400,615	5,006,166	5,134,567
Succeeding Yearly Property Tax Receivable	400,001	400,001	400,001
Other Assets	12,000	12,000	12,000
Total Assets	<u><u>\$ 13,804,362</u></u>	<u><u>\$ 12,688,072</u></u>	<u><u>\$ 11,754,422</u></u>
Liabilities:			
Total Current Liabilities	\$ 1,016,009	\$ 794,446	\$ 605,012
Long-Term Debt (Less Current Maturities)	115,500	148,500	181,500
Deferred Revenue from Succeeding Year	400,001	400,001	400,001
Total Liabilities	<u>1,531,510</u>	<u>1,342,947</u>	<u>1,186,513</u>
Total Net Assets	<u>12,272,852</u>	<u>11,345,125</u>	<u>10,567,909</u>
Total Liabilities and Net Assets	<u><u>\$ 13,804,362</u></u>	<u><u>\$ 12,688,072</u></u>	<u><u>\$ 11,754,422</u></u>

The asset category that has changed significantly during the last three years is Current Assets, which increased by \$1,167,770 or 25% in 2005, \$788,721 or 20% in 2004 and \$846,568 or 28% in 2003. Increases in Cash and Investments make up the majority of this change and are related to the results of operations over the past three years.

The current ratio (current assets divided by current liabilities) for 2005 was 5.78, 2004 was 5.94 and 2003 was 6.49. It is a measure of liquidity, providing an indication of the hospital's ability to pay current liabilities; a high ratio number is preferred.

**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE HOSPITAL (CONTINUED)

Table 2 summarizes information from the Statements of Revenues, Expenses and Changes in Net Assets.

Table 2: Statement of Revenues, Expenses & Changes in Net Assets

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues:			
Net Patient Service Revenue	\$ 7,142,396	\$ 6,701,544	\$ 6,143,373
Other Revenues	105,612	103,037	102,183
Total Operating Revenues	<u>7,248,008</u>	<u>6,804,581</u>	<u>6,245,556</u>
Operating Expenses:			
Nursing Service	1,612,867	1,381,992	1,266,778
Other Professional Service	2,457,668	2,423,135	2,239,648
General Service	626,948	592,631	583,758
Fiscal, Administrative, and Unassigned Expenses	1,538,909	1,495,217	1,362,154
Depreciation	692,926	674,539	665,620
Interest	-	-	2,146
Total Operating Expenses	<u>6,929,318</u>	<u>6,567,514</u>	<u>6,120,104</u>
Operating Income	318,690	237,067	125,452
Non-Operating Revenues (Expenses)	<u>573,401</u>	<u>540,149</u>	<u>862,257</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions	892,091	777,216	987,709
Capital Grants and Contributions	<u>35,636</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	927,727	777,216	987,709
Net Assets, Beginning of Year	<u>11,345,125</u>	<u>10,567,909</u>	<u>9,580,200</u>
Net Assets End of Year	<u><u>\$ 12,272,852</u></u>	<u><u>\$ 11,345,125</u></u>	<u><u>\$ 10,567,909</u></u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

FINANCIAL ANALYSIS OF THE HOSPITAL (CONTINUED)

Net patient service revenue made up 98% in 2005, 2004 and 2003 of the Hospital's total operating revenue. During 2005 the Hospital implemented an across the board 2% increase in charges and experienced increases in surgery, anesthesiology and medical and surgical supplies revenue. To arrive at net patient service revenue contractual adjustments have been made to gross patient service revenue due to agreements with third party payors. Table 3 below shows the contractual adjustments that were recognized:

Table 3: Net Patient Service Revenue and Contractual Adjustments

	2005	2004	2003
Total Patient Service Revenues	\$ 9,092,205	\$ 8,814,736	\$ 7,966,198
Adjustments to Patient Revenue:			
Contractual Adjustments	1,790,056	1,914,794	1,598,291
Provision for Bad Debt	159,753	198,398	224,534
Net Patient Service Revenue	<u>\$ 7,142,396</u>	<u>\$ 6,701,544</u>	<u>\$ 6,143,373</u>
Adjustment as a Percent of Revenues	<u>21.44%</u>	<u>23.97%</u>	<u>22.88%</u>

Total operating expenses increased \$361,804 or 5.5% in 2005, \$447,410 or 7.3% in 2004, and \$503,960 or 8.6% in 2003. During 2005 the Hospital implemented a 3-5% increase in salaries. The operating expenses are broken down by department on the Schedules of Operating Expenses in the fiscal year end Audit Report.

Operating Income (total operating revenue less total operating expenses divided by total operating revenue) was \$318,690 or 4.4% of total operating revenue in 2005, \$237,067 or 3.5% of total operating revenue in 2004 compared to \$125,452 or 2% in 2003.

Other Operating Revenue increased by \$2,575 in 2005, and decreased by \$854 in 2004. Table 4 shows the detail for this line item.

Table 4: Other Revenue

	2005	2004	2003
Cafeteria	\$ 16,333	\$ 15,739	\$ 14,823
Fitness Center	5,021	4,065	5,639
Rental Income	32,030	31,490	32,115
Medical Records Transcription/Copy Fee	3,280	2,144	3,404
Clinic Lease Revenue (Dr.'s Cunningham & Shaffer)	29,720	29,720	29,720
Grants	6,832	9,525	-
Other	12,396	10,354	16,482
Total	<u>\$ 105,612</u>	<u>\$ 103,037</u>	<u>\$ 102,183</u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

HOSPITAL STATISTICAL DATA

Table 5: Statistical Data

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Patient Days			
Acute	823	1,187	1,097
Swing Bed	591	456	670
Newborn	42	41	34
Total	<u>1,456</u>	<u>1,684</u>	<u>1,801</u>
Admissions			
Acute	<u>281</u>	<u>355</u>	<u>344</u>
Discharges			
Acute	<u>281</u>	<u>354</u>	<u>344</u>
Average Length of Stay, Acute	<u>2.93</u>	<u>3.35</u>	<u>3.19</u>
Beds	<u>25</u>	<u>25</u>	<u>25</u>
Occupancy Percentage	<u>9.02%</u>	<u>13.01%</u>	<u>12.02%</u>

THE HOSPITAL'S CASH FLOWS

The Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

CAPITAL ASSETS

At June 30, 2005 the Hospital had \$5,400,615 invested in capital assets net of accumulated depreciation. In 2005, the Hospital expended \$1,026,155 in asset additions. An ER garage was added with a total cost of approximately \$438,000 as well as other numerous equipment purchases. In 2004, the Hospital expended \$487,488 in asset additions. In 2003, the Hospital expended \$350,326 in asset additions.

LONG-TERM DEBT

The only long-term debt that the hospital has is the zero interest loan received from Guthrie County Rural Electric Cooperative. Audubon County Memorial Hospital pays \$33,000 on this loan annually.

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**AUDUBON COUNTY MEMORIAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2005**

ECONOMIC FACTORS

The Hospital continued to improve its financial position during the current year. Some of the realities that may potentially become challenges for the Hospital are as follows:

- Expenses will continue to increase.
- Facilities at the Hospital require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.

The Hospital anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Hospital's ability to react to unknown issues.

CONTACTING THE HOSPITAL

The financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have any questions about this report or need additional information, please contact Thomas G. Smith, Administrator at Audubon County Memorial Hospital, 515 Pacific Street, Audubon, IA 50025.

**AUDUBON COUNTY MEMORIAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2005 AND 2004**

ASSETS	2005	2004
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,271,760	\$ 559,680
Certificates of Deposit	3,332,962	2,749,898
Patient Receivables, Less Allowance for Uncollectible Accounts (2005 - \$178,132 and 2004 - \$218,939)	998,665	1,142,737
Accounts Receivable - Other	21,702	16,045
Inventories	186,946	172,185
Prepaid Expenses	68,624	72,344
Total Current Assets	5,880,659	4,712,889
NONCURRENT CASH AND INVESTMENTS		
Internally Designated by Board for Capital Expenditures	2,100,474	2,546,403
Restricted by Contributors and Grantors For Scholarships	613	613
Restricted by Permanent Endowment	10,000	10,000
Total Noncurrent Cash and Investments	2,111,087	2,557,016
SUCCEEDING YEAR PROPERTY		
TAX RECEIVABLE	400,001	400,001
CAPITAL ASSETS, NET		
	5,400,615	5,006,166
OTHER ASSETS		
	12,000	12,000
Total Assets	\$ 13,804,362	\$ 12,688,072

See accompanying Notes to Financial Statements.

LIABILITIES AND NET ASSETS	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 33,000	\$ 33,000
Accounts Payable, Trade	248,881	268,069
Accrued Employee Compensation	668,386	482,373
Third-Party Payor Settlement Payable	65,742	11,004
Total Current Liabilities	<u>1,016,009</u>	<u>794,446</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE		
	400,001	400,001
LONG-TERM DEBT, Less Current Maturities		
	<u>115,500</u>	<u>148,500</u>
Total Liabilities	1,531,510	1,342,947
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Invested in Capital Assets Net of Related Debt	5,252,115	4,824,666
Restricted		
Expendable for Scholarships	613	613
Nonexpendable Permanent Endowment	10,000	10,000
Unrestricted	7,010,124	6,509,846
Total Net Assets	<u>12,272,852</u>	<u>11,345,125</u>
Total Liabilities and Net Assets	<u>\$ 13,804,362</u>	<u>\$ 12,688,072</u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of \$159,753 in 2005 and \$198,398 in 2004)	\$ 7,142,396	\$ 6,701,544
Other Revenues	105,612	103,037
Total Revenues	7,248,008	6,804,581
EXPENSES		
Nursing Service	1,612,867	1,381,992
Other Professional Service	2,457,668	2,423,135
General Service	626,948	592,631
Fiscal, Administrative, and Unassigned Expenses	1,538,909	1,495,217
Depreciation	692,926	674,539
Total Expenses	6,929,318	6,567,514
OPERATING INCOME	318,690	237,067
NON-OPERATING GAINS (LOSSES)		
County Taxes	420,086	415,020
Investment Income	142,526	113,151
Unrestricted Contributions	8,634	22,411
Gain (Loss) on Sale of Capital Assets	2,155	(10,433)
Net Nonoperating Gains	573,401	540,149
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	892,091	777,216
Capital Grants and Contributions	35,636	-
Increase in Net Assets	927,727	777,216
Net Assets Beginning of Year	11,345,125	10,567,909
Net Assets End of Year	\$ 12,272,852	\$ 11,345,125

See accompanying Notes to Financial Statements.

**AUDUBON COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third Parties	\$ 7,341,206	\$ 6,371,967
Cash Paid to Employees	(2,366,854)	(2,349,597)
Cash Paid to Suppliers	(3,719,411)	(3,383,090)
Other Receipts and Payments, Net	105,612	103,037
Net Cash Provided by Operating Activities	1,360,553	742,317
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Tax Appropriations	420,086	415,020
Contributions	44,270	22,411
Net Cash Provided by Non-Capital Financing Activities	464,356	437,431
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(1,087,254)	(560,372)
Cash Received from Sale of Capital Assets	2,155	3,800
Payments on Long Term Debt	(33,000)	(36,590)
Net Cash Used by Capital and Related Financing Activities	(1,118,099)	(593,162)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in Noncurrent Cash and Investments	445,929	(273,330)
Interest Income	135,614	106,467
Maturities of Certificates of Deposit	2,719,184	1,987,709
Purchase of Certificates of Deposit	(3,295,457)	(2,535,303)
Net Cash Provided (Used) by Financing Activities	5,270	(714,457)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	712,080	(127,871)
Cash and Cash Equivalents - Beginning	559,680	687,551
CASH AND CASH EQUIVALENTS - ENDING	\$ 1,271,760	\$ 559,680

See accompanying Notes to Financial Statements.

**AUDUBON COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2005 AND 2004**

RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	2005	2004
Operating Income	\$ 318,690	\$ 237,067
Adjustments to Reconcile Income from Operations to Net Cash Provided by Operating Activities		
Depreciation	692,926	674,539
Decrease (Increase) in -		
Patient Receivables	144,072	(397,542)
Other Receivables	(5,657)	(2,243)
Inventories	(14,761)	(2,748)
Prepaid Expenses	3,720	(16,741)
Increase (Decrease) in -		
Accounts Payable	(19,188)	100,341
Accrued Salaries, Wages, Benefits and Other	186,013	81,679
Third Party Payor Settlements Payable	54,738	67,965
Net Cash Provided by Operating Activities	\$ 1,360,553	\$ 742,317

See accompanying Notes to Financial Statements.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Audubon County Memorial Hospital (the Hospital) is a county public hospital organized under Chapter 347, Code of Iowa. Services are provided primarily to residents of Audubon County and the surrounding area in South Central Iowa. The Hospital grants credit to patients, substantially all of whom are County residents.

A. Reporting Entity

For financial reporting purposes, Audubon County Memorial Hospital has included all funds, organizations, agencies, boards, commissions, and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. Audubon County Memorial Hospital has no component units, which meet the Governmental Accounting Standards Board criteria.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

C. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets

The following accounting policies are followed in preparing the balance sheets:

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Hospital considers checking accounts, petty cash, and Board-designated savings to be cash equivalents.

Patient Receivables – Patient receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts. The Hospital provides an allowance for bad debts using the allowance method and management's judgment. Services are sold on an unsecured basis. Accounts past due more than 90 days are individually analyzed for collectibility. In addition, an allowance is provided for other accounts when a significant pattern of collectibility has occurred. At June 30, 2005 and 2004, the allowance for uncollectible accounts were \$178,132 and \$218,939, respectively.

Inventory – Inventory is valued at cost using a first-in, first-out method.

Capital Assets, Net – Capital assets are stated on the basis of cost. The provision for depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Useful lives are assigned based on estimated useful lives of depreciable assets recommended by the American Hospital Association. Capital expenditures less than \$2,000 are expensed as incurred. Capital expenses of \$2,000 or greater are capitalized and amortized over the useful life of the asset.

Investments – Investments are valued at purchase cost, or fair market value at date of acquisition if donated. Investments consist of savings accounts, certificates of deposit with maturities greater than three months, and accrued interest receivable.

Noncurrent Cash and Investments – Noncurrent cash and investments include assets which have been internally designated by the Hospital's Board of Trustees, assets which are restricted by contributors or grantors and restricted by a permanent endowment. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes. Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in non-operating income to the extent expended within the period.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets (Continued)

Property Tax Receivable – Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes for the current year. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenues is deferred and will not be recognized as revenue until the year for which it is levied.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenues consist of succeeding year property tax receivable.

Net Assets – Net assets of the Hospital are classified into three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the Hospital. Unrestricted net assets are remaining net assets that do not meet the definition of invested capital assets net of related debt or restricted.

E. Operating Revenues and Expenses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating gains and losses.

F. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Contributions

From time to time the Hospital receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as other operating revenues. Amounts that are unrestricted are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

H. Restricted Resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

I. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital provided charity care in the amount of \$2,520 and \$-0- in 2005 and 2004, respectively.

J. County Tax Revenue

Taxes levied to finance the current year are included in non-operating revenue.

NOTE 2 NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. Medicare cost reports through June 30, 2002 have been settled.

Medicaid

The Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. Medicaid cost reports through June 30, 2002 have been settled.

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 2 NET PATIENT SERVICE REVENUE (CONTINUED)

Other

The Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Revenue from the Medicare and Medicaid programs accounted for approximately 60% and 4%, respectively, of the Hospital's net patient revenue for the year ended 2005, and 63% and 3%, respectively, of the Hospital's net patient revenue, for the year ended 2004. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient service revenue and contractual adjustments is as follows:

	<u>2005</u>	<u>2004</u>
Total Patient Service Revenue	\$ 9,092,205	\$ 8,814,736
Contractual Adjustments		
Medicare	1,522,071	1,704,428
Medicaid	92,691	69,772
Provision for Bad Debt	159,753	198,398
Other	<u>175,294</u>	<u>140,594</u>
Total Contractual Adjustments	<u>1,949,809</u>	<u>2,113,192</u>
Net Patient Service Revenue	<u>\$ 7,142,396</u>	<u>\$ 6,701,544</u>

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Receivable from Patients and Their Insurance Carriers	\$ 485,158	\$ 687,949
Receivable from Medicare	84,455	593,435
Receivable from Medicaid	<u>607,184</u>	<u>80,292</u>
Total Patient Receivables	1,176,797	1,361,676
Less Allowance for Doubtful Accounts	<u>(178,132)</u>	<u>(218,939)</u>
Patient Receivables, Net	<u>\$ 998,665</u>	<u>\$ 1,142,737</u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 4 DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2005 and 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Deposits are included in the following balance sheet captions:

	2005	2004
Cash and Cash Equivalents	\$ 1,271,760	\$ 559,680
Certificates of Deposit	3,332,962	2,749,898
Noncurrent Cash and Investments		
Internally Designated by Board for Capital Expenditures	2,100,474	2,546,403
Restricted by Contributors and Grantors For Scholarships	613	613
Restricted by Permanent Endowment	10,000	10,000
Total Deposits	\$ 6,715,809	\$ 5,866,594

NOTE 5 CAPITAL ASSETS

A summary of capital assets for the years ended June 30, 2005 and 2004 are as follows:

	July 1, 2004	Additions	(Retirements)	June 30, 2005
Capital Assets				
Land	\$ 68,389	\$ -	\$ -	\$ 68,389
Land Improvements	317,819	76,606	-	394,425
Building	5,686,006	528,520	-	6,214,526
Fixed Equipment	628,860	-	-	628,860
Movable Equipment	2,662,971	421,029	(187,875)	2,896,125
Construction in Progress	83,115	61,099	-	144,214
Totals	9,447,160	1,087,254	(187,875)	10,346,539
Accumulated Depreciation				
Land Improvements	151,645	25,239	-	176,884
Building	2,277,401	326,603	-	2,604,004
Fixed Equipment	376,499	27,919	-	404,418
Movable Equipment	1,635,449	313,044	(187,875)	1,760,618
Totals	4,440,994	\$ 692,805	\$ (187,875)	4,945,924
	\$ 5,006,166			\$ 5,400,615

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 5 CAPITAL ASSETS

Construction in Progress as of June 30, 2005 consists of clinical and pharmacy computer systems projects. The total costs of the projects are budgeted to be \$106K and \$39K. The projects will be funded with the cash reserves of the Hospital and are expected to be completed in 2006.

NOTE 6 LONG-TERM DEBT

A schedule of changes in long-term debt for 2005 and 2004 is as follows:

	Balance July 1, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Note Payable, Non-Interest Bearing	\$ 181,500	\$ -	\$ (33,000)	\$ 148,500	\$ 33,000
Total Long-Term Debt	<u>\$ 181,500</u>	<u>\$ -</u>	<u>\$ (33,000)</u>	<u>\$ 148,500</u>	<u>\$ 33,000</u>
	Balance July 1, 2003	Additions	(Payments)	Balance June 30, 2004	Amounts Due Within One Year
Note Payable, Computer System	\$ 3,590	\$ -	\$ (3,590)	\$ -	\$ -
Note Payable, Non-Interest Bearing	214,500	-	(33,000)	181,500	33,000
Total Long-Term Debt	<u>\$ 218,090</u>	<u>\$ -</u>	<u>\$ (36,590)</u>	<u>\$ 181,500</u>	<u>\$ 33,000</u>

The Note Payable, Computer System dated August 1998, for the purchase of a computer accounting system. The note payable calls for repayment, commencing October 1998 in sixty equal monthly installments of \$1,795, including interest at 5.256% per annum. This note was paid in full during 2004.

The Note Payable, Non-Interest Bearing, a non-interest bearing note payable dated September 1999, for the construction of an in-house physicians clinic and for the construction of a new Clinic in Exira, Iowa. The note payable calls for repayment through September 2009 with quarterly installments of \$8,250.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

Years Ending June 30:	Long Term Debt	
	Principal	Interest
2006	\$ 33,000	\$ -
2007	33,000	-
2008	33,000	-
2009	33,000	-
2010	16,500	-
	<u>\$ 148,500</u>	<u>\$ -</u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 7 PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$145,700, \$138,900, and \$129,700, respectively, equal to the required contributions for each year.

NOTE 8 RELATED ORGANIZATION

Management Services

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy Medical Center – Des Moines provides an administrator, management consultation, and other services to Audubon County Memorial Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Audubon County Memorial Hospital. Expenses for the administrative and management services received were \$135,532 and \$135,928 for the years ended June 30, 2005 and 2004, respectively. At June 30, 2005 and 2004, the Hospital had accounts payable to Mercy of approximately \$13,500 and \$12,900, respectively.

Audubon County Hospital Foundation

The Audubon County Hospital Foundation was established to raise funds to support the operations and other activities of the Audubon County Memorial Hospital. The Foundation's funds are distributed to the Hospital in amounts and periods determined by the Foundation's Board of Directors. The distributions by the Foundation to the Hospital for the years ended June 30, 2005 and 2004 were as follows:

	2005	2004
Contributions from Foundation to Finance	\$ 12,739	\$ 4,260
Plant Replacement and Expansion	\$ 12,739	\$ 4,260

**AUDUBON COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005 AND 2004**

NOTE 9 COMMITMENTS AND CONTINGENCIES

Hospital Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Self-Funded Employee Health Insurance Plan

The Hospital has elected to self-insure their employee health insurance program. The Hospital has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual claims and to provide claims processing and other administrative duties. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not paid at the end of the year.

NOTE 10 LEASING ARRANGEMENTS

On January 1, 2000, the Hospital, as lessor, leased an area of the Hospital building and a clinic building in Exira, Iowa, to be used as medical office space under ten-year operating lease agreements. The leases contain provisions to automatically renew for another ten-year period, unless written termination notice is given 90 days prior to renewal. Rental income will be recognized over the term of the leases. Lease payments to be received on a monthly basis total \$2,277. Minimum annual rents to be received each of the next five years is \$27,324 annually.

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REQUIRED SUPPLEMENTARY INFORMATION

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**AUDUBON COUNTY MEMORIAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS AND NOTES
BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2005**

The following is a comparison of actual expenditures to the adopted budget for the year ended June 30, 2005:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Final to Actual Cash Basis Variance
Estimated Amounts to be Raised by Taxation	\$ 420,086	\$ -	\$ 420,086	\$ 400,001	\$ 20,085
Estimated Other Revenues/Receipts	7,436,959	191,898	7,628,857	7,669,618	(40,761)
	<u>7,857,045</u>	<u>191,898</u>	<u>8,048,943</u>	<u>8,069,619</u>	<u>(20,676)</u>
Expenses/Disbursements	6,929,318	407,545	7,336,863	7,533,177	(196,314)
Net	<u>927,727</u>	<u>(215,647)</u>	<u>712,080</u>	<u>536,442</u>	<u>175,638</u>
Transfers	-	-	-	(1,182)	1,182
Balance, Beginning of Year	<u>11,345,125</u>	<u>(10,785,445)</u>	<u>559,680</u>	<u>6,193,799</u>	<u>(5,634,119)</u>
Balance, End of Year	<u>\$ 12,272,852</u>	<u>\$ (11,001,092)</u>	<u>\$ 1,271,760</u>	<u>\$ 6,729,059</u>	<u>\$ (5,457,299)</u>

NOTE 1

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. During 2005 the budget was not amended.

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OTHER SUPPLEMENTARY INFORMATION

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	TOTAL	
	2005	2004
PATIENT CARE SERVICES		
Medical and Surgical	\$ 451,871	\$ 541,754
Coronary Care	4,004	19,074
Obstetric	19,136	19,992
Skilled Nursing Care	184,698	129,469
Nursery	13,104	12,546
Intermediate Nursing Care	450	398
Total	<u>673,263</u>	<u>723,233</u>
OTHER PROFESSIONAL SERVICES		
Operating Room	943,719	857,272
Recovery Room	99,705	93,789
Delivery and Labor Room	13,798	15,082
Anesthesiology	388,848	349,722
Radiology	2,738,438	2,569,985
Blood Service	39,458	22,253
Laboratory	1,348,816	1,321,265
Intravenous Therapy	14,964	20,472
Respiratory Therapy	58,942	57,583
Physical Therapy	319,091	301,228
Speech Therapy	8,305	5,943
Occupational Therapy	8,429	7,688
Electrocardiology	93,649	97,038
Cardiac Rehabilitation	86,832	68,951
Electroencephalography	1,522	4,177
Medical and Surgical Supplies	693,027	493,726
Pharmacy	1,228,495	1,500,464
Emergency	237,521	224,350
Sleep Study	34,506	16,786
Clinic	63,397	63,729
Total	<u>8,421,462</u>	<u>8,091,503</u>
Total Patient Service Revenues	9,094,725	8,814,736
Charity Care	<u>(2,520)</u>	<u>-</u>
Total Gross Patient Service Revenue	<u>9,092,205</u>	<u>8,814,736</u>
Adjustments to Patient Service Revenues	<u>(1,949,809)</u>	<u>(2,113,192)</u>
Net Patient Service Revenues	<u>\$ 7,142,396</u>	<u>\$ 6,701,544</u>

INPATIENTS		OUTPATIENTS	
2005	2004	2005	2004
\$ 351,195	\$ 421,456	\$ 100,676	\$ 120,298
4,004	19,074	-	-
19,136	19,992	-	-
184,698	129,469	-	-
13,104	12,546	-	-
450	398	-	-
<u>572,587</u>	<u>602,935</u>	<u>100,676</u>	<u>120,298</u>
25,775	55,908	917,944	801,364
3,465	6,416	96,240	87,373
4,918	9,091	8,880	5,991
23,387	35,878	365,461	313,844
274,559	314,914	2,463,879	2,255,071
13,454	8,885	26,004	13,368
178,812	258,638	1,170,004	1,062,627
8,841	12,943	6,123	7,529
32,120	35,602	26,822	21,981
53,328	45,264	265,763	255,964
3,895	2,929	4,410	3,014
5,638	5,610	2,791	2,078
23,480	36,492	70,169	60,546
596	1,488	86,236	67,463
-	597	1,522	3,580
149,821	140,467	543,206	353,259
324,823	353,018	903,672	1,147,446
5,312	28,781	232,209	195,569
-	-	34,506	16,786
56	41	63,341	63,688
<u>1,132,280</u>	<u>1,352,962</u>	<u>7,289,182</u>	<u>6,738,541</u>
<u>\$ 1,704,867</u>	<u>\$ 1,955,897</u>	<u>\$ 7,389,858</u>	<u>\$ 6,858,839</u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF ADJUSTMENTS TO NET PATIENT SERVICE REVENUES
AND OTHER REVENUES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 1,522,071	\$ 1,704,428
Contractual Adjustments - Medicaid	92,691	69,772
Provision for Bad Debt	159,753	198,398
Other Allowances and Adjustments	175,294	140,594
 Total Adjustments	 \$ 1,949,809	 \$ 2,113,192
OTHER REVENUES		
Cafeteria Meals	\$ 16,333	\$ 15,739
Space Rental	32,030	31,490
Grants	6,832	9,525
Other	50,417	46,283
 Total Other Revenues	 \$ 105,612	 \$ 103,037

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
NURSING SERVICE EXPENSES		
NURSING ADMINISTRATION		
Salaries	\$ 63,654	\$ 62,042
Supplies and Expenses	4,921	2,405
	68,575	64,447
MEDICAL AND SURGICAL		
Salaries	674,887	628,828
Supplies and Expenses	18,527	19,267
	693,414	648,095
OBSTETRIC		
Salaries	7,551	6,210
Supplies and Expenses	98	78
	7,649	6,288
NURSERY		
Salaries	5,092	3,240
Supplies and Expenses	47	132
	5,139	3,372
OPERATING ROOM		
Salaries	74,952	72,592
Supplies and Expenses	131,927	96,570
	206,879	169,162
DELIVERY AND LABOR ROOM		
Salaries	3,019	4,415
Supplies and Expenses	13	1,144
	3,032	5,559
CENTRAL SUPPLY		
Salaries	14,774	12,252
Supplies and Expenses	353,452	222,391
	368,226	234,643
INTRAVENOUS THERAPY		
Supplies and Expenses	3,481	4,476
	3,481	4,476
EMERGENCY SERVICE		
Salaries	39,157	36,963
Physician Assistant and Nurse Practitioner	214,933	204,226
Professional Fees	1,116	2,018
Supplies and Expenses	1,266	2,743
	256,472	245,950
TOTAL NURSING SERVICE EXPENSES	\$ 1,612,867	\$ 1,381,992

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
OTHER PROFESSIONAL SERVICE EXPENSES		
LABORATORY		
Salaries	\$ 208,837	\$ 198,946
Professional Fees	2,400	2,400
Supplies and Expenses	266,292	226,908
	477,529	428,254
ELECTROCARDIOLOGY		
Salaries	2,639	4,634
Professional Fees	7,883	7,665
	10,522	12,299
ELECTROENCEPHALOGRAPHY		
Salaries	113	403
Professional Fees	18,520	10,806
	18,633	11,209
CARDIAC REHAB		
Salaries	7,981	5,332
Professional Fees	8,998	6,880
Supplies and Expenses	2,997	-
	19,976	12,212
RADIOLOGY		
Salaries	175,867	172,501
Professional Fees	239,079	233,532
Supplies and Expenses	426,378	396,252
	841,324	802,285
PHARMACY		
Salaries	89,537	88,209
Drugs	368,853	470,791
Supplies and Expenses	9,349	7,782
	467,739	566,782
ANESTHESIOLOGY		
Professional Fees	143,465	130,025
Supplies and Expenses	1,507	1,126
	144,972	131,151
RESPIRATORY THERAPY		
Salaries	30,188	29,619
Supplies and Expenses	5,525	5,723
	35,713	35,342

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
OTHER PROFESSIONAL SERVICE EXPENSES		
PHYSICAL THERAPY		
Salaries	\$ 40,885	\$ 42,356
Professional Fees	105,658	98,869
Supplies and Expenses	11,178	8,254
	157,721	149,479
SPEECH THERAPY		
Professional Fees	3,859	3,091
Supplies and Expense	746	589
	4,605	3,680
OCCUPATIONAL THERAPY		
Professional Fees	6,773	5,145
Supplies and Expense	-	241
	6,773	5,386
SPECIALTY CLINICS		
Salaries	125,461	139,593
Supplies and Expense	7,241	4,564
	132,702	144,157
MEDICAL RECORDS		
Salaries	111,392	98,912
Supplies and Expenses	28,067	21,987
	139,459	120,899
TOTAL OTHER PROFESSIONAL SERVICE EXPENSES	\$ 2,457,668	\$ 2,423,135
GENERAL SERVICE EXPENSES		
DIETARY		
Salaries	\$ 120,532	\$ 115,183
Food	48,173	45,948
Supplies and Expenses	26,316	24,401
	195,021	185,532
PLANT OPERATION AND MAINTENANCE		
Salaries	92,578	99,164
Utilities	111,444	100,386
Supplies and Expenses	92,368	84,052
	296,390	283,602
HOUSEKEEPING		
Salaries	77,629	76,083
Supplies and Expenses	21,424	15,577
	99,053	91,660

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	2005	2004
LAUNDRY AND LINEN		
Salaries	\$ 24,904	\$ 20,812
Supplies and Expenses	11,580	11,025
	36,484	31,837
 TOTAL GENERAL SERVICE EXPENSES	 \$ 626,948	 \$ 592,631
 FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES		
FISCAL AND ADMINISTRATIVE SERVICES		
Administration		
Salaries	\$ 136,465	\$ 103,454
Management Fees	135,532	135,928
Professional Services	2,520	2,688
Legal Fees	4,902	4,017
Supplies and Expense	124,667	87,716
Finance		
Salaries	61,498	59,620
Professional Services	21,492	15,810
Supplies and Expense	8,599	37,061
Fiscal Services		
Salaries	135,821	133,682
Supplies and Expense	69,650	59,943
Purchasing		
Salaries	12,521	12,005
Supplies and Expense	1,230	2,868
Telemedicine		
Supplies and Expense	200	3,300
	715,097	658,092
 UNASSIGNED EXPENSES		
Insurance	56,099	45,407
Employee Benefits	767,713	791,718
	823,812	837,125
 TOTAL FISCAL, ADMINISTRATIVE AND UNASSIGNED EXPENSES	 \$ 1,538,909	 \$ 1,495,217

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF AGED ANALYSIS OF ACCOUNTS RECEIVABLE
FROM PATIENT AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2005 AND 2004**

Analysis of Aging

Age of Accounts (by Date of Discharge)	2005		2004	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 819,180	60.60 %	\$ 858,266	51.32 %
31-60 Days	286,314	21.18 %	309,695	18.52 %
61-90 Days	122,541	9.07 %	178,269	10.66 %
91 Days and Over	123,739	9.15 %	326,284	19.50 %
Total Accounts Receivable	<u>1,351,774</u>	<u>100.00 %</u>	<u>1,672,514</u>	<u>100.00 %</u>

ALLOWANCES

Contractual -

Medicare and Medicaid

174,977

310,838

Doubtful Accounts

178,132

218,939

Net Accounts Receivable

\$ 998,665

\$ 1,142,737

Net Patient Service Revenue
per Calendar Day (Excluding
Provision for Bad Debts)

\$ 20,006

\$ 18,904

Days of Net Patient Service
Revenue in Accounts
Receivable at Year End

50

60

Analysis of Allowance for Doubtful Accounts

	2005		2004	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 218,939	3.07%	\$ 224,345	3.65%
Add:				
Provision for Doubtful Accounts	159,753	2.24%	198,398	2.96%
	<u>378,692</u>		<u>422,743</u>	
Deduct:				
Accounts Written Off	(200,560)	(2.81%)	(203,804)	(3.04%)
Ending Balance	<u>\$ 178,132</u>	<u>2.49%</u>	<u>\$ 218,939</u>	<u>3.27%</u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
INVENTORIES		
Central Supply	\$ 74,403	\$ 73,166
Pharmacy	98,001	81,038
Laboratory	<u>14,542</u>	<u>17,981</u>
 Totals Inventories	 <u>\$ 186,946</u>	 <u>\$ 172,185</u>
 PREPAID EXPENSES		
Insurance	\$ 31,381	\$ 46,146
Service Contracts	29,656	18,950
Other	<u>7,587</u>	<u>7,248</u>
 Totals Prepaid Expenses	 <u>\$ 68,624</u>	 <u>\$ 72,344</u>

**AUDUBON COUNTY MEMORIAL HOSPITAL
COMPARATIVE STATISTICS
(UNAUDITED)
YEARS ENDED JUNE 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Patient Days:		
Acute	823	1,187
Swing Bed	591	456
Nursery	<u>42</u>	<u>41</u>
Totals	<u><u>1,456</u></u>	<u><u>1,684</u></u>
Admissions:		
Acute	281	355
Discharges:		
Acute	281	354
Average Length of Stay:		
Acute	2.93	3.35
Beds	25	25
Occupancy Percentage	9.02%	13.01%

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa

We have audited the accompanying financial statements of Audubon County Memorial Hospital as of and for the year ended June 30, 2005, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated September 8, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Audubon County Memorial Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Audubon County Memorial Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are summarized in the Part 1 of the Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses as defined above.

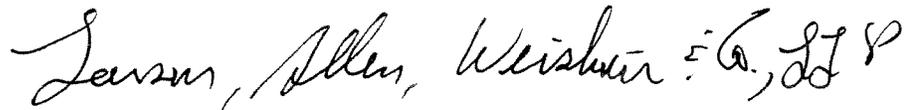
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Audubon County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain additional matters that we reported to management of Audubon County Memorial Hospital in a separate letter dated September 8, 2005.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees, and citizens of Audubon County and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.



LARSON, ALLEN, WEISHAIR & CO., LLP

Austin, Minnesota
September 8, 2005

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part I: Findings Related to Financial Statements:

Reportable Conditions

05-I-1 Segregation of Duties

The accountant currently has the ability to create new vendors, enter invoices and print checks.

Recommendation

We recommend the ability to create a new vendor be limited to one individual who does not have access to other areas of the disbursement cycle.

Response

Processing procedures will be modified in order to adequately segregate responsibilities.

Conclusion

Response is accepted.

05-I-2 Segregation of Duties

The individual who prints payroll checks also has the ability to enter new employees in the information system, enter the hours, and change wages.

Recommendation

We recommend limiting the ability to create a new employee to an individual who does not have access to other areas of the payroll cycle or implementing a process of reviewing payroll.

Response

A process for reviewing payroll will be implemented.

Conclusion

Response is accepted.

05-I-3 Segregation of Duties

Business office employees are opening the mail, accepting payments and adjusting accounts in the patient accounting system.

Recommendation

We recommend identifying one employee to open the mail and accept payments while at the same time removing access to the patient accounting system.

Response

One employee will be given the responsibility of opening the mail and accepting payments while removing access to the patient accounting system.

Conclusion

Response is accepted.

**AUDUBON COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005**

Part II: Other Findings Related to Required Statutory Reporting:

- 05-II-1 Official Depositories
A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
- 05-II-2 Certified Budget
Based on a comparison of budget basis expenditures with budgeted expenditures, the Hospital cash basis expenditures did not exceed its budget for the year ended June 30, 2005.
- 05-II-3 Questionable Expenditures
We noted no expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 05-II-4 Travel Expenses
No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- 05-II-5 Business Transactions
No business transactions were found between the Hospital and Hospital officials and/or employees.
- 05-II-6 Board Minutes
Board minutes were examined and appeared to give a condensed, accurate account of business transacted by the Board.
- 05-II-7 Deposits and Investments
We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Hospital's investment policy.
- 05-II-8 Publication of Sale of Property
We noted that items of property were sold with proper public notice as required under 347.30 of the Code of Iowa
- 05-II-9 Publication of Bills Allowed and Salaries
Chapter 374.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the country as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Hospital did publish schedules of bills allowed and a schedule of salaries paid as required by the Code.